

# Hezbollah Takes Aim at Lebanon's Central Bank and Telecom Sector

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## ABOUT THE AUTHORS



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Brief Analysis

**By exploiting the public's anti-corruption sentiment, the group's leaders are looking for an excuse to seize control of additional sectors and replace the country's financial system with their own corrupt, cash-based economy.**

**A**s Lebanese protestors return to the streets, another conflict is being waged in the background—a financial battle between Hezbollah and Banque du Liban, the country's central bank. On April 30, the pro-Hezbollah cabinet announced that it would be seeking billions of dollars in assistance from the IMF as part of a wider economic “rescue plan.” At the same time, however, the group has been attempting to establish full control over the country's remaining hard currency, using the financial crisis to strengthen its parallel economy at a time when Lebanese banks are suffering a serious currency shortage.

## THE STAKES

**F**or years now, many ordinary economic transactions in Lebanon have been conducted in U.S. dollars. Recently, local banks stopped providing dollars to depositors after months of setting withdrawal limits; the central bank then ordered lenders to allow withdrawals from foreign currency accounts in Lebanese pounds only. But to stop the pound's slide on the parallel market, the central bank set a cap of 3,200 pounds to the dollar for money exchange firms, according to Reuters and other media outlets. Despite these measures, the currency continued its freefall, selling as low as 4,000 pounds to the dollar—far less than the fixed peg of 1,500 pounds to the dollar that had been in place for decades. Apparently, money exchangers had been selling dollars at prices higher than the one specified by the central bank. Reuters reported that several of these dealers were arrested on April 27 for violating the cap; in response, exchange firms decided to shut down until the dealers were released.

The clash is part of a wider war between Hezbollah, which supports the parallel economy of exchangers, and Riad Salameh, the central bank governor who supports the banking sector. The winning camp will likely gain full control over Lebanon's hard currency and financial system.

## HEZBOLLAH'S PLAN UNFOLDS

The first signs of this struggle were seen in early April when Hezbollah tried to appoint some of its allies to key financial posts: namely, four open vice governor positions at the central bank, and top spots on the Banking Control Commission, which oversees the daily operations of private lenders. Hezbollah's camp already holds the Finance Ministry and Interior Ministry, so infiltrating these banking institutions would strengthen its financial position. Yet the plan was disrupted when former prime minister Saad Hariri—apparently under pressure from new U.S. ambassador Dorothy Shea—threatened to pull his allies from parliament if the cabinet approved the appointments.

Since then, Hezbollah has orchestrated a public campaign against Salameh, accusing him of stealing money and protecting corrupt political elites. Likewise, Prime Minister Hassan Diab publicly blamed Salameh for the deteriorating economic conditions. "There are gaps in the central bank's performance, strategies, clarity, and monetary policy, and [its] losses have reached USD 7 billion this year," he stated in an April 24 speech, adding that the bank "is either incapable, absent, or directly inciting this dramatic depreciation." Free Patriotic Movement leader Gebran Bassil reportedly joined the chorus, blaming Salameh for the loss of currency reserves and urging the state to "correct" these mistakes. And according to Reuters, deputy Hezbollah leader Naim Qassem "criticised the central bank over the pound's drop," declaring that Salameh "was partly responsible" and that an "appropriate decision" must be made to put the "country's interest ahead of all else."

Both the anti-Salameh campaign and the government's new request for an IMF bailout are richly ironic given that the pro-Hezbollah cabinet has done nothing to weed out corruption or implement urgently needed reforms itself. Even so, Hezbollah will likely double down on its rhetoric against the banks as the poverty-stricken populace commences another wave of mass protests.

## WHAT DOES HEZBOLLAH NEED?

The group is well aware that Salameh has been implementing the financial policies of consecutive governments since he was first appointed to head the central bank in 1993. In that capacity, he has facilitated the transfer of private bank funds to each of these governments and, by extension, to the corrupt political elite they represent—a tactic that went largely unchallenged for years until all of the depositors' money was squandered. Hezbollah and its allies are part of this elite and share much of the blame, despite their attempts to deflect it.

What the group wants now is to replace the teetering financial and banking system with its own parallel system based on a cash economy. That would enable Hezbollah to control all of the cash currently in the hands of the Lebanese people, estimated at 6 billion U.S. dollars plus 7 billion Lebanese pounds. It would also help the group become Lebanon's main importer of goods, mostly from Iran and Syria.

Moreover, Hezbollah is well aware that the central bank controls substantial assets besides currency. The bank still owns two potentially lucrative companies (Middle East Airlines and Casino Du Liban) and vast amounts of land. It also controls the country's foreign exchange reserves, including the \$13 billion in gold stored at the Federal Reserve Bank of New York. The idea of selling this gold has been anathema in Lebanon for decades, but it has resurfaced amid the country's currency crisis and looming default on \$33 billion in foreign debt. If the central bank sells the gold, that would obviously create enormous opportunities to divert some of the money to Hezbollah and the wider elite.

The telecom sector has been another lucrative target for the group. Now that Hezbollah controls the Ministry of Telecommunications, it has placed management of the sector under direct ministry control, ousting the two private companies (Alpha and Touch) that once filled that role on the state's behalf. Annual profits from this sector could total around \$1 billion, making it a particularly valuable prize. Under the watchful eye of Hezbollah official Hussein Hajj Hassan, head of the Parliamentary Committee for Information and Communications, the group is reportedly preparing a comprehensive state telecommunications strategy that aligns with its goals.

## POLICY RECOMMENDATIONS

Lebanon's entire system, including its banking sector, is in serious need of fundamental reforms, many of which would need to be implemented before—not after—the international community offers a proper bailout. Short of these reforms, true renovation will be impossible unless the system collapses.

Even so, some useful measures can be adopted in the interim to contain Hezbollah's financial takeover plans and inform the narrative surrounding the latest wave of protests. Hezbollah and its allies have been taking advantage of public anger to power their campaign against the banks, and this campaign needs to be exposed. While maintaining pressure on the central bank is important, Lebanon's corrupt elite and Hezbollah's allies should not be allowed to avoid blame for the financial crash. To strike this balance, the United States and the wider international community should take three crucial steps:

- **Counter Hezbollah's rhetoric against the banks.** This means exposing its behind-the-scenes plans to replace the banking sector and explaining why its parallel economy cannot solve Lebanon's crisis. A strategic communication strategy would help in this regard, including outreach to certain independent Lebanese media outlets.
- **Issue new sanctions against a corrupt, high-profile Hezbollah political ally.** Targeting such a figure (e.g., an official or businessperson affiliated with the Free Patriotic Movement or Amal) would serve multiple purposes: sending a message of support for the people's demands; reminding protestors that they should hold the entire political elite responsible for corruption, not just the banks; and reminding the banks that caving to Hezbollah's demands will force the international financial system to cut them off. Lebanese banks have generally done a good job of respecting U.S. restrictions on barring Hezbollah-linked individuals and institutions from accessing U.S. dollars. But they may be tempted to give in if the group continues its anti-bank rhetoric or resorts to violence as it has done in the past (e.g., detonating explosives [in front of Blom Bank's Beirut headquarters](https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances) (<https://www.washingtoninstitute.org/policy-analysis/view/targeting-hezbollahs-home-front-finances>) in 2016).
- **Build communication channels with the street.** U.S. and international officials need to start talking to protestors and political activists. When Lebanon's system eventually falls apart—as now seems inevitable—a new political class might take the fore. Hezbollah is already assembling its own group of activists to fill this void, so Washington and its allies would be wise to establish ties with alternative leaders, and sooner rather than later.

The instinct among European governments will be to send financial assistance to Lebanon as soon as possible in order to [maintain stability during the coronavirus pandemic](https://www.washingtoninstitute.org/policy-analysis/view/hezbollahs-corona-quagmire-an-opportunity-to-empower-the-laf) (<https://www.washingtoninstitute.org/policy-analysis/view/hezbollahs-corona-quagmire-an-opportunity-to-empower-the-laf>). Without serious reforms, however, any such assistance would quickly be engorged by Hezbollah and the rest of the corruption machine. For the Lebanese people who have just gone back into the streets despite the risks of COVID-19, political reform is clearly more important than stability.

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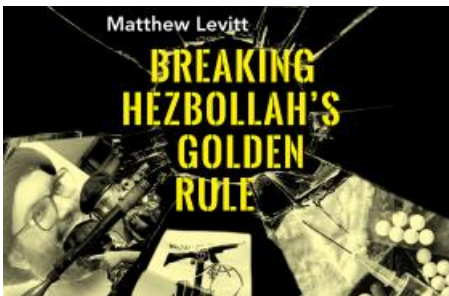
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